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1. About 60 percent of the private banks, native banks, and money changers in China have suspended business or liquidated their holdings in the three year period since September 1949. About 25 percent of the remaining banks have undergone reorganization and are now run jointly by private and government interests. Only about 15 percent of the banks have been able to exist under the "leadership" of the Chinese People's Bank and many of these have had to combine to concentrate their assets.

2. The policy of the People's Bank has been to swallow up all private banking agencies. At the present time Communist China is allowing national capitalists to exist and during this period the People's Bank wants to rid the banking system of all private and native banks by converting them to institutions operated jointly by private and government interests. The People's Bank has accomplished this in many cases by taking over bank shares held by the previous government and bank shares held by private individuals branded counter-revolutionaries by the Communists. However, the number of joint banks exceeds the present need and their number must be reduced.

3. The People's Bank has adopted other measures which threaten the existence of even joint banking agencies. To attract deposits in the People's Bank, the Bank has established a savings plan with a lottery incentive. The Bank also loans money at a low rate of interest. It has loaned JMP 2,000,000,000,000 to private industry to finance government procurement orders. These policies have caused a serious crisis in private banking circles. When various private and native banks balanced their books at the end of June 1952, they faced the

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following problems:

a. The amounts deposited with them were 40 to 50 percent less than in the previous year and their outstanding loans were 60 to 70 percent less.

b. The total income of the private banks was reduced through lower interest rates, but their expenditures remained unchanged. Thus each bank incurred a deficit.

c. The average monthly income of the private banks was only 30 percent of their expenditures. During the six month period prior to June 1952, these banks lost between 20 and 30 percent of their capital.

d. The primary cause for the decline in business was the banks' inability to meet the monetary needs of business and industry. The latter required large, long-term loans at low rates of interest; the private banks were able to provide only short-term loans at a higher rate of interest. As a result, the People's Bank came to have a monopoly over the extension of loans of this type.

4. The various private and native banks and the jointly managed institutions requested the People's Bank to make changes in the banking structure to enable them to resume profitable operations. The private banks hoped to extend the scope of combined business operations and thereby cut costs. The People's Bank, however, was in favor of outright mergers, with small banks being merged with larger ones. The whole structure was to be under the supervision of the People's Bank which would oversee a "division of labor along specialized lines of operations, division of labor in assigned missions, and specialization in distinct types of deposits."[1]

5. The plan for large-scale merger of private banks is already in the preparatory stage and parts of it will be put into effect prior to the end of 1952. With the exception of a few banks having branches in Hong Kong, which may continue to exist in order to obtain foreign exchange, over 80 percent of the remaining private and native banks in China will be merged. About 4,000 bank employees will be reassigned to serve with government economic agencies and will be sent to the Northwest to work.[2]

25X1A 1. [redacted] Comment. The Chinese equivalents for these three expressions are Chuan Yeh Fen Kung (1413/2814/0433/1562), Chuan Chih Fen Kung (1413/5120/0433/1562), and Chuan Hang Chuan Hu (1413/5887/1413/2073).

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